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Remarks prepared for delivery by Secretary of Agriculture John R. Block, before the National Extension Advisory Council, Washington, D.C., March 9, 1981

Thank you. I'm honored and delighted to address this first annual meeting of the National Extension Advisory Council.

My first order of business today is to congratulate you on your foresight. I understand that just one year ago you got together right here because you thought it time that Cooperative Extension volunteers have a stronger voice at the national level.

I want to tell you that your thinking was right. Your timing was on track. And if you were anticipating the emphasis by this administration on strong federal-state-county relationships, you were right on target.

I think that I speak from more personal experience than most when I say that I regard extension work as a powerful force behind close, cooperative and productive partnerships. My wife Sue and I met while showing 4-H projects at an Illinois State Fair. We now have three children, all of whom have been actively involved in 4-H.

To my way of thinking, no two programs within the entire scope of USDA responsibilities better illustrate what this administration is about than research and extension. Just translate the words "research and extension" into the language of this administration. What do you get? "Productivity and partnership."

I can't over-emphasize the critical importance of agricultural productivity. The fact is that your heritage and mine has been one of abundance. Yet our legacy, unless we take some mighty quick action right here and now, may be one of scarcity. We have the signals. The direction is clear.

If we stay on our current track, we're going to collide with the impossible. Projections show that total demand for U.S. agricultural products will increase 60-85 percent by the year 2000.

Yet they also show three staggering--and dangerous--trends.

First, we're urbanizing 3 million acres of productive land each

year.

Second, erosion is removing nearly 2 billion tons of soil a year from our cropland. In 1977, about a fourth of the nation's cropland was eroding at rates that reduce normal crop yields.

And third, our productivity rates are falling further behind with each decade. We met strong demand in the 1970's by boosting production by about 3 percent each year. But only one-fourth of this growth was from increases in crop yields. We achieved three-quarters of this growth by bringing more land into cultivation. In the 1960's, in contrast, U.S. agriculture had an annual production growth rate of 1.4 percent. This entire yearly increase came from gains in crop yields.

I believe that we can satisfy the demand for agricultural products in the next 20 years--including an export demand that's double the 1980 demand--by taking each of these problems head-on.

And that means research--research focused on basic animal and plant production and soil and water resource use.

When I say "research" in this context, I want to make it clear that I mean "research and extension support." It's been brought to my attention that in the last few weeks I've frequently stated that productivity means research and research means funding. Let me revise that statement: a reasonable investment in research and extension dollars will pay off in production, greater domestic supplies and increased international sales.

I stand corrected and urge you to weigh my actions and not my semantics.

In the past few weeks I've fought hard to recognize both the importance of extension work and the research-extension partnership in what's probably the most important arena in town: the budget. And I've won.

I'm not at liberty to discuss the specifics of the revised 1982 budget until President Reagan presents it to Congress tomorrow. But I want you to know that I considered the original 1982 budget inadequate to offset inflation and still maintain extension programs at full strength. And I can assure you that you will be pleased with the high priority given extension in the current proposal. I was willing to argue a strong case for extension's budgetary well-being because I regard extension programs as agricultural research's unique delivery system. They're a

partnership. One is weakened or strengthened in direct proportion to the other.

Take, for example, tne case of our food and agriculture technology base. Much has been said about the urgency of improving our technology--that includes production, processing, and distribution--so we can meet the demands of world trade in the next 20 years without depleting our natural resources.

Energy, forestry, soil and water conservation, diet, nutrition--all aspects of agriculture will be on the research agenda in coming decades.

But these developments can't stand alone. They are effective only as they're transferred and translated from the research lab and test plot to the farm, the home and the rural community.

And that means you. The work of extension people has always been vital. In 1978 alone, 66 percent of all U.S. producers had direct contact with extension programs. But inflation, the need for improved financial management, and the necessary shift in responsibilities from the federal to state and local levels now bring the work of the extension volunteers into much keener focus.

The fact is that your services are needed now more than ever before. I recognize that and I recognize the vitality of the research-extension partnership.

I give you my expression of support here today as I've already done in budget reviews. I wish you a productive year and look forward to your second annual meeting.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block, before the Grocery Manufacturers of America, Washington, D.C., March 11, 1981

Thank you. I was delighted to accept George Koch's invitation to join you today. You could say that GMA and this administration of the Department of Agriculture are starting at the same point. GMA is founded on the belief that the greatest contribution you can make to the consuming public is to support market forces that include competition, consumers' freedom of choice, regulation as needed for

health and safety, and fair returns to manufacturers.

That actually sounds as if you're using my lines.

It is my conviction--and it's President Reagan's conviction--that the greatest contribution this department can make to the national economy is to foster a climate in which the marketplace sets its own price levels and agriculture is productive, exporting, strong and prosperous.

That climate starts with a philosophy. It's made official with legislation. It's given life with budget allocations and given bounds by the regulatory environment. It's put into effect with programs, and, in the end, it's all made possible through cooperation and plain hard work.

I'd like to take a few minutes this morning to discuss these processes as they affect programs and issues we'll all be dealing with in the next few years.

The approach of this administration is simple and direct. We've stated our philosophy. Like the GMA, President Reagan and I strongly advocate free enterprise. We believe the market functions best that functions free of artificial supports and that returns fair profit for responsible work. We want to create a regulatory environment that doesn't suffocate initiative and that gives full rein to the possibilities of private investment.

The most immediate and concrete example of these philosophies is the upcoming farm bill.

I cannot reconcile my commitment to free enterprise with the target price concept. Target prices are direct, unrepayable outlays from the federal treasury, and I will argue for eliminating them from the 1981 bi

Because loan programs, on the other hand, are repaid, I support a modest increase in the wheat and feed grain price support loan rates.

I believe that the farmer-owned grain reserve has been good for farmers and consumers, and that a simplified program will be even better. We're reviewing the program, including a reserve entry price or special loan rate that encourages farmers to place grain into the reserve. We're also looking at trigger prices and how they should be adjusted over time to give the market ample room to function.

We're now in the process of asking Congress for authority to forego the April 1 adjustment in dairy price support levels.

In no way does this action reflect unfavorably on this administration's perception of the program. I assure you that I strongly believe not only in the dairy support program but in the historical need for a sound program.

This action reflects only on today's budget realities. It reflects basic economics that demands that this administration respond to the overriding national interest and to the hard facts of supply and demand.

Those facts are clear: since 1979, the semi-annual adjustments have led to milk supplies that far outpace demand. An April 1 increase would create a surplus of over 11 billion pounds at a net cost of over $1.7 billion. We'll save an estimated $147 million this year by foregoing the April increase.

The Senate Agriculture Committee has voted 14-2 in support of the administration's proposal and the matter will now go before the House Agriculture Committee.

At the same time that the Senate Committee voted on the dairy price adjustment, it also voted down an amendment to limit milk protein imports.

It's the position of this administration that action to restrict casein imports is untimely, unwarranted, and may be in violation of international trading codes.

First, the casein issue should not be dealt with by attaching it to the bill to forego the April 1 increase. It doesn't relate to the production issue and it reduces the bill's chances for timely passage.

Second, legislation is not the appropriate way to limit casein imports. Such action would almost certainly be looked on unfavorably by our trading partners under the General Agreement on Trade and Tariffs (GATT). If limiting casein imports proves necessary, a Section 22 administrative procedure is the way to go.

And third, the case has not been made that casein imports take markets from domestic milk products. The International Trade Commission study last year found no significant interference, but I'm not accepting that report as the last word. We're studying the matter in USDA and will report our findings by June 1.

While inflation demands cuts in some programs, it also makes it prudent to favorably review other programs that net a gain for the American taxpayer.

We estimate that American agriculture will contribute an all-time high of $29 billion to the national balance of payments this year. This trade buys imported goods and generates millions of jobs throughout the economy.

For these reasons, programs that expand commercial exports will get a favorable budget review. Although I can't give you specifics in terms of programs or dollars, I'm also very interested in increasing exports of processed foods. Any value that American workers can add to American raw product right here on American soil is good for the country and the economy.

Inflation not only influences the budget picture; it also changes the regulatory environment.

The fact is that we can't afford the price of over-regulation. It burdens our financial resources, drains our initiative, and takes its toll on a clear and direct relationship between industry and consumers.

On February 17, President Reagan signed an Executive Order to reduce the burden of existing and future regulations on the industry and the consuming public. In line with that order, USDA won't be issuing any new food labeling regulations unless it's shown that they are cost effective for industry and consumers.

We're also looking favorably at risk assessment (risks vs. benefits to health) as part of the food safety regulation process.

There you have it. The philosophy is defined, the legislation drafted, the budgetary and regulatory groundwork laid. Now the real work of building a productive agricultural plant against inflationary realities can begin. I appreciate the GMA's unqualified support of the President's budget decisions and I look forward to working--and accomplishing--with you.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block, before the American Pork Congress, Kansas City, Missouri, March 12, 1981

Thank you. I've done quite a bit of speaking around the country in the past month-and-a-half, but today is like coming home. Orville, thanks for the invitation.

As a farmer, I think I understand your interest in the basic philosophies that will guide USDA actions in the next few years. But as a hog producer, your problems, in a very personal sense, are my problems. When you're hurting, I'm hurting.

Let me say up front that I know you're victims of inflation, because I am, too.

The weather was against you last year. It was too good. Hogs were hitting the 230-240 pound range in just six months and commercial pork production ran eight percent above 1979. That's 96 million head or 16.4 billion pounds. However you want to state it, that represents a record production year for the last decade...and very real problems in terms of feeding costs.

In the Corn Belt, where I'm from, producers took a $4 loss in December and more than an $8 loss in January to feed a 40-50 pound feeder pig to a 220-pound slaughter hog.

We're looking for some price increases this year. Barrows and gilts averaged $40 per hundredweight in 1980 and USDA estimates that prices will jump to $49 this year. Although returns may increase by $9, it looks like production costs could increase by $10, outstripping any gains.

So you feel like you can't get ahead--and that's what inflation is all about.

I'm not telling you all of this just to recite statistics. I want you to know that I understand the situation and I believe the best thing we can do to remove the inflationary noose from America's neck is to keep our agriculture strong, productive, and profitable.

The question, then, is: how do we accomplish this within the context of President Reagan's inflation program and what will this mean for the pork industry?

Let me say from the start that there are no blanket statements that can be made. The President's program is not a synonym for cutbacks. It means some cutbacks. Nor does the program mean there won't be any budget increases. There will be increases, as appropriate for the national good.

Let me give you some specifics.

The aim of this administration is to create a climate in which productivity and profitability have a chance. We believe and believe strongly that such a climate is fostered by free enterprise and a market that functions free of artificial supports.

I cannot reconcile my commitment to free enterprise with the target price concept. Target prices are direct, unrepayable outlays from the federal treasury, and I will argue for eliminating them from the 1981 farm bill.

Because loan programs, on the other hand, are repaid, I support a modest increase in wheat and feed grain price support loan rates.

Although it's too early to know the specifics, I can tell you that cutbacks in the funds available for the food assistance programs will reduce USDA's commodity purchases for next year.

Much of the nation's inflationary problems are due to soaring government costs--a $100 billion increase last year--and a parallel increase in government involvement in our lives. This administration is carefully distinguishing between areas where the federal government has an appropriate role and where responsibilities are better left to state and local government, and the private sector.

Federal involvement in the Haitian Swine Fever eradication program is a case in point. I regard this program, which will get underway in two weeks with almost $24 million from the U.S., Canada and Mexico, as necessary for the health and safety of the American swine industry and the consuming public.

In other cases, we're finding that we simply can't afford the price of government over-involvement. It burdens our financial resources, and drains our initiative.

The President has signed an Executive Order to reduce the burden of regulations on the public. In line with that order, USDA won't be issuing any new food labeling regulations unless it's shown that they are cost effective for industry and consumers.

As I said earlier, no sweeping generalizations define this administration's approach to government programs. Bringing government spending under control is our absolute, unchallenged priority. Where budget cutbacks are the appropriate means toward that goal, the ax will swing. Where cutbacks are not the way to go, programs will be evaluated in terms of net benefits they return to the U.S. economy.

One such program is agricultural research. It's urgent that we improve our food and agriculture technology base--and that includes production, processing, and distribution--so we can meet increased domestic and trade demands in the next 20 years.

I recognize the need for basic and applied research to make pork production more efficient and provide consumers with high quality food at reasonable cost. I recognize the need for continuing research in such matters as reproductive efficiency, nutrient use, genetic engineering, and swine health problems.

But more important than what I recognize is what I support.

I support a reasonable investment in research dollars. This will pay off in production and greater supplies. I support the swine research now being done by almost 250 federal and state scientists. And I assure you that agricultural research will fare well in final budget assessments.

That kind of budget support for a program that benefits the industry and national good is as much a part of our philosophy as cutbacks. Budget cuts, after all, aren't the goal of this administration. The goals are productivity and profitability--and cooperation and budget increases take their place next to cutbacks as a means toward that end.

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Testimony

UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

Statement of Richard Lyng, Deputy Secretary of Agriculture
Before the Subcommittee on Elementary, Secondary and Vocational Education of the House Education and Labor Committee
March 10, 1981

Introduction

Mr. Chairman and Members of the Committee, I am Richard Lyng, Deputy Secretary of the Department of Agriculture. I am pleased to be here today to discuss the Administration's fiscal year 1981 and 1982 legislative recommendations for Child Nutrition Programs.

We greatly appreciate the support that you, Mr. Chairman, and the members of this subcommittee have given to these programs over the years. Your role in the nation's efforts to improve nutrition for our needy children is widely recognized.

President's Program for Economic Recovery

The spending reductions that I will discuss today for the Child Nutrition Programs must be viewed as a part of the President's general Program for Economic Recovery. That plan, presented to you in joint session on February 18, consists of four parts: (1) a substantial reduction in the growth of Federal expenditures; (2) a significant reduction in Federal taxes; (3) prudent relief of Federal regulatory burdens; and (4) a monetary policy on the part of the independent Federal Reserve System that is consistent with these policies. These four complementary policies form an integrated and comprehensive program.

The reductions I will discuss address the first point of the plan--reducing the rate of growth in Federal spending. Continued rapid

expansion of the Federal budget has disrupted our economy, resulted in a decline in measured productivity and exacerbated both inflation and unemployment. Inflation, which increased at a rate of between 1 to 1 1/2 percent a year in the early 1960's, has increased to nearly 13 percent a year for the past two years. Not since the first World War have we had two years of back-to-back double digit inflation.

The benefits of the President's program to the average American will be striking. Inflation will be reduced. The American economy will produce 13 million new jobs by 1986. The economy itself will break out of its anemic growth patterns to a much more robust growth trend of 4 to 5 percent a year. These positive results will be accomplished simultaneously with reducing tax burdens, increasing private saving, and an improving living standard for the American family.

Child Nutrition Programs Subsidize Non-Needy Children

Federal spending over the past decade has grown in part because we have chosen to aid a number of groups who cannot be considered truly needy. We share the committee's concern for needy children. I would like to re-emphasize what Secretary Block told the House Agriculture Appropriations Subcommittee just a few weeks ago. The Department of Agriculture "takes a back seat to no one" in our concern for the nutritional well-being of economically needy children. But a number of our child feeding programs have evolved to where, today, they go far beyond original goals.

A large proportion--nearly 30 percent--of child feeding Federal expenditures serve non-needy students. For example, the resources--cash and commodities--that States receive under the National School Lunch Program for each lunch served a student whose family earns more than 125 percent of poverty plus a standard deduction has risen from 55 cents in 1973 to 98 cents today for a reduced-price lunch and from 20 cents in 1973 to 34.5 cents today for a paid lunch. The Federal government's outlay for meals served to these students in the lunch, breakfast and child care programs will total nearly $1.1 billion in fiscal year 1981.

It is difficult to say whether the Child Nutrition Programs have improved the health of non-needy students. In general, the nutritional status of non-needy students who participate in the National School

Lunch Program does not appear to be significantly different from that of nonparticipating, non-needy students.

Rather than improving the diets of these students in a significant way then, the Federal subsidy becomes a form of income assistance to families with middle and upper incomes. It becomes a direct form of income supplementation--not nutrition supplementation.

Growth in Government Spending in Child Nutrition Programs

In 1970 the Federal government contributed a total of $700 million for the Child Nutrition Programs; the fiscal year ending this September will see the programs costing over $5 billion. The graph illustrates the dramatic increase in Federal expenditures in the Child Nutrition Programs over the last decade. Federal expenditures grew at nearly a 20 percent annual growth rate during this period; corrected for inflation this still represents a growth of nearly 9 percent annually throughout the period. Three major factors have contributed to this growth, including the growth in new programs and the concomitant participation, major shifts in funding the programs away from the tradional grant-in-aid concept to statutorily defined reimbursement formulas, and changing roles in State and Federal funding relationships.

Since 1970, we have added special funding for free and reduced-price meals to the lunch program, we have encouraged schools to initiate breakfast programs, and we have expanded the Child Care Food Program. Consequently, the number of students participating in our programs has increased 22.3 percent over the decade. This amounts to adding 4.3 million participants to the lunch program, 644 thousand participants to the Child Care Food Program, and 3 million participants to the School Breakfast Program.

Inflation has driven up the cost of the Child Nutrition Programs, primarily because reimbursements in these programs are indexed directly to changes in the food away from home indices. Today there are at least 37 different federal reimbursement schemes within 10 major programs. The various formulas are used to index benefits depending on a number of factors including the particular type of foodservice provided, the income of the participant, and the characteristics of the sponsoring organization.

Lastly, the shift in responsibility from the States to the Federal government has contributed to the rapid expansion in child feeding expenditures. Following the enactment of the Child Nutrition Act of 1966 total national expenditures for these programs increased from a little less than $2 billion in 1967 to an estimated $8 billion in 1980, about a 12 percent annual growth rate. The Federal share of these expenditures increased from 25 percent of the total in 1967 to nearly 60 percent of the total in 1980.

As these various factors have interacted to increse the Federal cost of these and other social programs, taxes have increased, both because of inflation and explicit fiscal policy decisions. Taxes, however, haven't kept pace with expenditures, resulting in deficit spending. As we expanded the number and coverage of Child Nutrition Programs in the 1970's, we also needed to increase tax revenues. Increasing tax burdens slowed economic growth, increased inflation and--because of the indexation--resulted in additional Federal outlays. Inflation has fostered more inflation.

Proposals

The reduction proposals I will outline could alter families' expenditure patterns. But I firmly believe that the long term benefits of the President's economic package--reduced inflation and taxation--will improve the incomes of the very families we serve and more than offset any short term loss.

In reviewing the Child Nutrition Programs for cost savings, the Administration was guided by three broad principles: (1) protect benefits for the most needy while reducing spending; (2) improve program management and efficiency; and (3) eliminate unnecessary or low priority programs and consolidate other programs into block grants to States. I should note that the Carter Administration fiscal year 1982 budget also called for a reduction in child nutrition expenditures--approximately $400 million in fiscal year 1982. Our legislative proposals will increase those savings to nearly $2 billion.

The specific legislative changes to accomplish savings in the child feeding area will be sent to Congress shortly and will include:

1. Elimination of cash and commodity support for meals served to students from families with incomes above 185 percent of poverty in the National School Lunch, School Breakfast, and Child Care Food Programs. Under this proposal, meals served to students from families with incomes in excess of 185 percent of poverty (nearly $16,000 annually for a family of four) would no longer be subsidized by the Federal government;
2. Reduction of cash and commodity support for meals served to students from families with incomes between 125 percent of poverty plus a standard deduction and 185 percent of poverty in these programs. Under this proposal, support would be reduced about 40 percent;
3. Lowering the maximum income eligibility for reduced price meals to 185 percent of poverty from the current level of 195 percent of poverty plus a standard deduction;
4. Making permanent the changes of the Omnibus Reconciliation Act of 1980;
5. Eliminating snacks in the Child Care Food Program;
6. Eliminating Nutrition Education and Training (NET) Program;
7. Eliminating equipment assistance programs;
8. Eliminating non-profit private schools with annual tuition over $1500 from the National School Lunch and School Breakfast Programs; and
9. Improving program administration by simplifying program rules and regulations.

Reduce Spending, But Protect Benefits for the Most Needy

The biggest savings--about $860 million--would come from eliminating the cash and section 6 commodity support for paid meals in the National School Lunch, School Breakfast, and Child Care Food Programs (see chart 1). Under current legislation schools and child care institutions receive a cash subsidy of money for each meal they serve to a student. They receive a higher subsidy for meals that they serve to needy students, but they do receive subsidies for meals served to students from middle and upper income families, even for meals served to students from wealthy families. Schools and child care institutions also receive a commodities subsidy for every meal they

serve.

In the school lunch program, these cash and commodity subsidies would average 39.5 cents (21.50 cents cash; 18 cents commodities) (see chart 2) in fiscal year 1982 if Congress makes no changes to the permanent legislation.

Together with the 1981 changes included in last year's Ominibus Reconciliation Act, which we believe should be made permanent, cash and commodity support would average about 35 cents. Under our proposal, meals served to students from families with incomes in excess of 185 percent of poverty would not be subsidized by the Federal government. On the average school districts would lose about $64 in Federal subsidies annually per student. School lunch programs would no longer receive direct Federal subsidies for approximately 14.5 million students who come from families with incomes in excess of 185 percent of the poverty level.

The Federal government has always provided explicit cash and commodity subsidies for meals served to all students regardless of their families' income. The purpose of these subsidies was to increase participation in various Child Nutrition Programs and thereby improve children's nutritional status. Participation has increased dramatically in these programs, but, as I said, little evidence exists that the nutritional status of the higher income participants has changed.

We will not, however, be cutting Federal support to these students completely. Schools will continue to be eligible to receive excess commodities under Section 416 of the Agricultural Act of 1949 and Section 32 of the Agricultural Adjustment Act of 1935. Section 416 provides for price supports for dairy, grain, oil, and peanut products. Section 32 allows for surplus removal of meat, poultry, fruits, and vegetables. Schools could use these commodities to served unsubsidized meals to students. In essence then, this change marks a return to the origional program design for support to non-needy students that existed prior to the 1970 legislation.

By reducing cash and section 6 commodities for reduced-price meals, we would reduce by about 40 percent Federal support for meals served to students from families with incomes between 125 percent of poverty plus a standard deduction and 185 percent of poverty, saving about $125 million. Under current legislation, the Federal government

pays States to reimburse schools for meals served to students from families in this income range. In the school lunch program, cash and commodity support would average $1.15 in fiscal year 1982 (see chart 3). This would amount to about $185 per student annually. Under last year's Reconciliation Act subsidies would be a little less than $1.09 per reduced-price lunch. Under our proposal the per meal subsidy, including cash and section 6, would be reduced by 45 cents (37 cents cash; 8 cents commodities) to about 64 cents. If schools, localities, and States did not further support a meal service in schools, this would mean a reduced-price meal charge of about 50 to 60 cents, 30 to 40 cents more than the current charge. On average, then, the Federal government would continue to provide an annual subsidy of nearly $105 for each student from a family in this income group. The family would be paying $54 to $72 more a year for 180 reduced-price lunches.

Our support for free meals--where we believe there is strong evidence of nutrition cost-effectiveness--would be essentially the same as under current law (see chart 4).

As you know, the Omnibus Reconciliation Act of 1980 replaced the hardship provisions, which had allowed families to deduct certain high costs from their income to qualify for free or reduced-price meals, with a standard deduction. The Reconciliation Act also instructed the Department to follow OMB's guidelines in setting the income poverty guidelines, to make annual rather than semiannual adjustments to the National Average Payment factors in July based upon changes in the Consumer Price Index for the previous 12 month period. These provisions were limited to fiscal year 1981. The chart shows a fiscal year 1981 savings of a little under $360 million.

We further propose to reduce the maximum income level to qualify for reduced-price meals from 195 percent of poverty to 185 percent. Coupled with this change, we would eliminate the standard deduction for families with annual incomes of more than 185 percent of poverty. This would save about $79 million. We propose to eliminate Federally-subsidized snacks in the Child Care Food Program; however, participants would still have access to three Federally-subsidized meals--breakfast, lunch, and supper. This would save almost $74 million.

President's Final Budget Proposals

Today, the President has announced four other proposals to reduce child nutrition spending: (1) reduce the WIC appropriation below the fiscal year 1981 appropriated level; (2) eliminate the Summer Food Service Program; (3) limit the Special Milk Program to those schools and institutions that do not participate in another federally subsidized meal program; and (4) consolidate funding for all the nutrition programs in Puerto Rico and possibly Guam, the Virgin Islands and other outlying territories into one single nutrition block grant.

We are proposing to reduce the WIC appropriation 20 percent below the fiscal year 1981 appropriated level. This change would reduce participation in the WIC program by about 675,000 participants (from 2.2 million to 1.5 million) and reduce participation in the commodity supplemental food program by 33,000 participants (from 113,000 to 80,000). It would save approximately $190 million from the 1981 funding level.

There is some evidence that the WIC program is effective in improving the health and well-being of its participants. However, the program has grown very rapidly at an annual rate of 73 percent over the last 7 years. It needs to be re-examined in terms of its growth, to insure that its benefits are properly targeted. As it is, the program can provide benefits to families with annual incomes up to 195 percent of poverty plus a standard deduction. The program is totally federally funded. We need to ask whether the program should continue to aid families above the poverty line.

As many Administrations before us, we are proposing to limit the Special Milk Program to those schools and institutions that do not participate in another federally subsidized meal program. This would save about $100 million in fiscal year 1982.

We are proposing to eliminate the Summer Food Service Program for Children. This program has been plagued by fraud and abuse. States, local governments, and schools have all opposed the program and have been unwilling to take on the burden of operating it. In 1980, FNS Regional Offices administered the Program for 19 States that had turned the program back to the Federal government to operate. The program's benefits are concentrated on a few urban areas. These problems, and the simple administrative difficulty of the Federal

government running a program that only exist for three months of the year counsel the elimination of the Summer Program.

Finally, we are proposing to consolidate funding for all the nutrition programs in Puerto Rico.

The unique characteristics of Puerto Rico necessitates a re-examination of the Federal role in providing nutrition assistance there. The proposal would allow local officials greater flexibility in designing nutrition programs consonant with local needs. The details of this proposal are still under development. We anticipate, however, that the proposal will result in a reduction in nutrition Federal assistance of approximately $300 million, about $35 million of which could be reflected in special nutrition programs.

Eliminate Unnecessary Programs and Consolidate Programs into Block Grants

We propose to eliminate Federal payments for the Nutrition Education and Training Program, the NET Program. We have financed grants to States for nutritional training of teachers and foodservice workers, for the foodservice management training of school food service personnel, and for nutrition education activities in schools and child care institutions. These are certainly worthwhile efforts. However, curriculum and training decisions are properly the responsibility of State and local education agencies and should not be dictated by Federal mandates or specified grants. Part of this nutrition education effort may be addressed by the States with the block grants for education that the President has proposed or as part of the regular school curriculum and the training of food service workers. We believe that States and local entities are in the best position to evaluate the educational and training needs of their students, food service workers, and educators. The initial Federal payment has laid the foundation for a potentially successful effort on which the States and localities can now build.

We propose to eliminate all equipment assistance to schools and child care institutions. We believe that this assistance has already fulfilled its primary purpose and is no longer needed as a support mechanism particularly in light of declining school enrollment and increasing school closings.

We propose to remove private, non-profit schools with an annual tuition over $1,500 from receiving Federal meal subsidies. These schools generally serve students from middle and upper income families. We believe that few students will be affected by this action.

Improve Program Management and Efficiency

We are proposing three ways to improve program management and efficiency. The first would improve the procedures for income verification in the School Nutrition Programs. Currently, the legislation requires that schools base eligibility determinations solely on a statement of income signed by an adult member of the household. This proposal would also allow schools more flexibility to verify income statements for cause. The second, closely connected to the first, would require States and local schools to include in the letter that they send home to parents with the application for free and reduced price meals and free milk only the figures for 185 percent of poverty and not 125 percent of poverty plus a standard deduction.

Current procedures for determining eligibility for various meal subsidies are based on self-reported income. Information received from such sources as GAO and OIG audits and investigations, State and local officials' comments, and public complaints and inquiries indicates that some households may be intentionally understating their income to qualify their children for free and reduced-price lunches. Published income eligibility standards provide an opportunity for some families to self-classify themselves in higher subsidy categories. These proposals would improve program accountability and better target benefits on the basis of actual need.

The third proposal would simplify local program administration by removing cost as a consideration in dispensing reimbursement. Under current law, schools must keep detailed records of their costs and allocate these costs to their various programs. This can be very difficult especially in schools that have a meal service that is not reimbursable, such as a la carte. For example, one food-service worker might make 100 ham sandwiches, but only 70 of these sandwiches will be served to children under the school lunch program. What portion of her time did she spend on those ham sandwiches? Or suppose she was chopping lettuce for salads, or slicing ham for those sandwiches? The schools

have had to devise elaborate methods for allocating costs that ultimately have very little reliability, generate piles of paperwork, and take time and energy away from the meal service itself.

Summary

In summary, I direct your attention to my final chart, which shows the Federal spending levels under each of three possibilities. The first is what the spending level for fiscal year 1982 would be, without extension of any of the provisions of the Reconciliation Act. The second shows the spending level with the permanent provisons of the Reconciliation Act. (The footnote shows the spending level--$4,160 million--if the temporary provisions of the Reconciliation Act are also made permanent.) The third shows the spending level if our first set of amendments are adopted. It does not reflect the additional savings of our final budget reductions.

You can see that our legislative package would reduce Federal spending more than $2.0 billion for fiscal year 1982--from $4.5 billion to $2.5 billion.

We believe that the uncontrolled growth of Federal spending must stop. It has been a primary cause of the sustained high rate of inflation. No proposal to reduce Federal spending is easy. While these reductions are significant, they are an integral part of the President's overall Program for Economic Recovery. These reductions, coupled with a reduction in Federal taxation and regulation, can go far in solving our economic problems without harming the neediest people in our country. As the President noted in his message to you last month, "it is time to recognize that we have come to a turning point. We are threatened with an economic calamity of tremendous proportions, and the old business as usual treatment can't save us."

Thank You.

#

Growth in Expenditures for Child Nutrition Programs, Fiscal Years 1970-1981

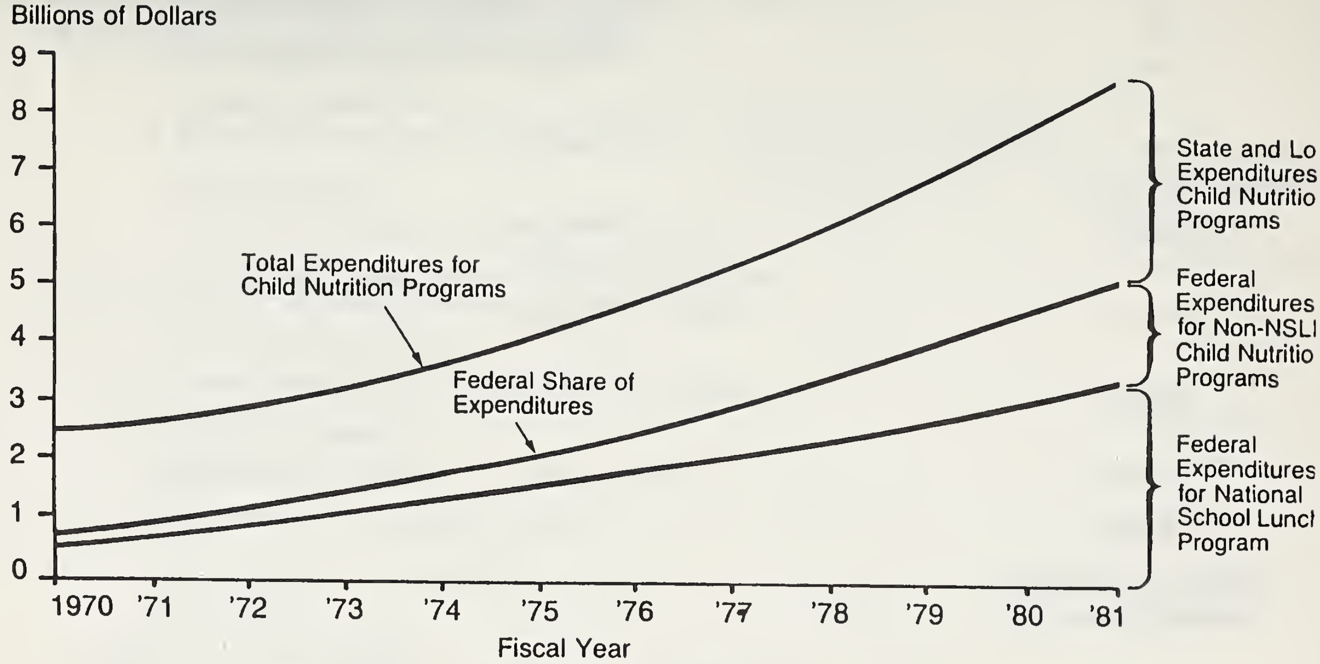

CHART 1

Administration's Proposed Savings for Fiscal Year 1982

Provision	FY 1982 Savings (Millions of Dollars)
• Extend Reconciliation Act	359.8
• Eliminate subsidies for families over 185% of poverty	860.4
• Lower subsidies for families from 138%* to 185% of poverty	125.2
• Lower reduced price eligibility to 185% of poverty; eliminate standard deduction	79.1
• Eliminate snacks in Child Care Food Program	73.9
• Eliminate Nutrition Education and Training Program	15
• Eliminate equipment assistance	19
• Eliminate $1,500 tuition schools	5
• Improve Program Administration	100
Total Savings	$1,637.4

*For family size of 4.

3/81

CHART 2

Average Federal Assistance per Paid Lunch Served on the National School Lunch Program, October 1981 - June 1982

	(Cents per Lunch)		
	Current Law	Reconciliation Act	Administration's Proposal
• General Assistance (Section 4)	21.5	18.75*	0
• Special Assistance (Section 11)	0	0	0
• Commodity Assistance	18	16	0
• Total Federal Assistance	39.5	34.75	0

* This rate assumes that only 80 percent of lunches are served in School Food Authorities serving less than 60 percent free or reduced price lunches during school year 1978-79.

3/81

CHART 3

Average Federal Assistance per Reduced Price Lunch Served in the National School Lunch Program, October 1981 - June 1982

(Cents per Lunch)

	Current Law	Reconciliation Act	Administration's Proposal
• General Assistance (Section 4)	21.5	19.75*	9
• Special Assistance (Section 11)	75.5	73	47
• Commodity Assistance	18	16	8
• Total Federal Assistance	115	108.75	64

* This rate assumes that 45 percent of lunches are served in School Food Authorities serving less than 60 percent free or reduced price lunches during school year 1978-79.

3/81

CHART 4

Average Federal Assistance for Free Lunches Served in the National School Lunch Program, October 1981 - June 1982

(Cents per Lunch)

	Current Law	Reconciliation Act	Administration's Proposal
• General Assistance (Section 4)	21.5	19.75*	
• Special Assistance (Section 11)	95.5	93	
• Commodity Assistance	18	16	
• Total Federal Assistance	135	128.75	

* This rate assumes that 45 percent of lunches are served in School Food Authorities serving less than 60 percent free or reduced price lunches during school year 1978-79.

3/81

CHART 5

Comparison of Alternative Child Feeding Budget Proposals

	(Millions of Dollars)		
	1980	1981	1982
• Current Law (Prior to P.L. 96-499) Child Nutrition*	3,580	4,146	4,609
• Reconciliation Act (P.L. 96-499) Child Nutrition*	0	3,829	4,520**
• Administration's Proposals Child Nutrition*	0	3,684	2,883

* Excludes Special Milk Program and WIC accounts.

** If reconciliation includes extension of P.L. 96-499 level would be $4,160 million.

3/81

Statement
By
Secretary of Agriculture John R. Block
Before
House Budget Committee
March 11, 1981

Mr. Chairman and members of the Committee, it is indeed a privilege to appear before you today.

During President Reagan's campaign and since taking office, he has made clear his commitment to restore real economic growth to the nation. That is this nation's most urgent need and an objective that we all share. The overall economic policy that can accomplish these goals is based on the following points:

- -- The key to increased economic growth and increased employment is to restore adequate incentive for production in the private sector. Economic growth rises out of increased production, and production comes from the efforts of businesses and individuals who have faith in the future.
- -- The present tax structure--as it applies to both businesses and individuals--and the present level of many public sector activities create serious and far-reaching disincentives to many important, private economic activities.
- -- The present unacceptable high interest rates and high inflation rates--both in real and psychological terms--are directly linked to the present level of federal borrowing required to support federal loan activities and to finance continuing deficits in the federal budget.
- -- The best way to lower inflation, reduce interest rates, increase business investment, and enhance economic growth is to reduce the overall level of federal activity and to encourage private economic activity.

As we begin this new administration, it is necessary to focus our attention immediately on three very important areas: tax reductions, regulatory relief and budget reform. The impact on the economy of each of these, and the impact of proposed changes, must be clearly understood if we are to strengthen the economy. This understanding

and this responsibility will require a continuing dialogue between the administration and the Congress.

That process is already underway. My purpose here today is to further and strengthen that cooperation.

At the Department of Agriculture one of our first tasks will involve legislation. The department's basic farm legislation expires at the end of this year. The programs authorized by this legislation are vital both to agriculture and to the American public. Those programs provide needed stability for America's farmers and American farm production. We will review the operation of the commodity loan and reserve programs, including reserve release and call price levels. These programs are designed to help farmers hold grain until the market reaches fair price levels. We will recommend the necessary changes in these programs to assure that farmers have the support necessary to provide adequate and dependable supplies of food and fiber. If we will stem the tide of rising production costs by bringing inflation into line--along with very aggressively expanding U.S. exports--we will bring favorable returns to farmers and greatly reduce the need for government intervention in the farm sector.

Agriculture continues to be a shining light in an otherwise dismal picture of international trade balances. Our agricultural exports in fiscal year 1980 totaled $40.5 billion and are projected to reach $47 billion during fiscal year 1981. The agricultural trade balance in fiscal year 1980 reached $23 billion and is expected to reach $28 to $30 billion in fiscal year 1981. Were it not for agricultural exports, the U.S. would have had an estimated foreign trade deficit in 1980 of $50 billion. We intend to pursue efforts aggressively to increase productivity and to expand our export markets.

I think it is important for all of us to understand that rising production costs continue to cut into farmers' profits and undermine their economic well-being. These conditions will in the long run effect consumer prices. Yet, we must keep in mind that we Americans are paying a smaller percentage of our incomes for food today than we did in 1950, far less than most of the rest of the world.

I do not believe it is necessary to make a tradeoff between consumers and farmers. Consumers and farmers have been and will continue to be partners. However, consumers cannot and should not

ask farmers to produce food at a loss. In the long run, a strong farm economy is in the consumer's best interest. Our legislative program will help assure adequate supplies of food, at a reasonable price to the consumer, with a fair return for the farmers.

Our food is the most plentiful, nutritious, healthful, safe, and reasonably priced in the world. A strong, prosperous farm economy will assure consumers that it will stay that way in the future.

We are also reviewing all of the department's other legislative authorities. It is our desire--and I am sure the Committee's desire--that federal spending be reduced by tightening up on program management wherever possible, while continuing to provide assistance for those most in need. Our legislative agenda will reflect this delicate balance.

On the regulatory side, regulatory relief and reform will be a priority of the Reagan administration and of my tenure in the department. As a farmer, and as a state official, I have seen first-hand the burdens and problems that unnecessary federal regulations can create--and the dampening effect they can have on productivity. We are committed to reviewing our existing regulations to see that they are more clearly written, that they are no broader than necesssary, and that functions that the states can perform more effectively are indeed left to the states. We must also carefully consider the impact of the regulations on those affected by them and know that we have selected the most cost-effective way of regulating permissible under the law. Those same principles will guide our development of any new regulations that the department issues.

Finally, with respect to the budget, President Reagan has announced a series of significant reductions that cut across the entire federal government. Some of the key changes to the USDA FY 1982 budget include:

FEDERAL CREDIT PROGRAMS

Farmers Home Administration Loans. We are recommending a reduction of $2.8 billion in new direct and guaranteed lending by this agency. The recommended loan level is $8 billion rather than the $10.8 billion included in the January budget. FmHA has loaned more money in the last three years than in all prior years of its existence. It is apparent that the federal government is taking over a larger and larger

segment of private lending and thus the federal government rather than the private sector is allocating more of our available capital. It is imperative that we get these lending programs under control, allow credit market forces to allocate more of the capital, and let FmHA get its management activities in order. We will continue, however, to target resources for the most needy. In this regard it should be noted that funds to provide operating capital for family farmers will exceed $1.3 billion in 1982 compared to $850 million in 1981 and funds for low income housing are protected at the 1981 level of $4.3 billion. Other lower priority programs are being reduced or terminated. We are recommending the termination of the Business and Industry Loan Program. We believe the private sector should provide the credit to rural business and industry without government intervention.

We are also recommendingloan program administered by USDA be terminated. A companion program administered by the Department of Energy is also being recommended for termination. We believe that other incentives, especially tax incentives, are sufficient to encourage alternative fuels production. Furthermore, I believe that private lenders will and should be investing in those activities without direct government intervention.

We are also proposing legislation to bring FmHA's interest rates more in line with the private sector, and to eliminate emergency loans to borrowers who can obtain credit elsewhere.

Rural Electrification Administration Loans. We are recommending two major changes in this area. The first is a 25 percent reduction in all direct lending activities for REA, which is consistent with our reduction in credit programs in FmHA. This reduction includes the elimination of all direct loans for telephone systems and for electrical generation and transmission facilities. The special 2 percent interest rate on direct loans for other electrification purposes would also be eliminated.

The second change for REA is to eliminate the Federal Financing Bank as a source of funds for the loans guaranteed under the program. We believe that these loan activities should be shifted to the private sector.

Having grown up on a farm, I am aware that REA has done a great job of bringing electricity to the nation's farms. This lightened the back-breaking physical work and the drudgery in the home and on the

farmstead; it brought modern conveniences to the family; and it modernized and mechanized farm tasks--but that job is largely done, and what remains can be done through greater reliance on the private sector. The same urgency and need no longer exists. We can turn our attention and our funds to other more pressing things.

DOMESTIC FOOD ASSISTANCE PROGRAMS

Child Nutrition Programs. For these programs, we will continue to protect fully those children whose families are at the lowest end of the income spectrum. We are, however, proposing to eliminate the major subsidies for children whose family earnings are in excess of 185 percent of the poverty level and to reduce the subsidy for children whose family earnings are between 125 and 185 percent of the poverty level. This would mean that the average cost to the child of a reduced price lunch would go from 20 cents to about 64 cents. However, school districts would continue to receive an average federal subsidy of 64 cents per meal. We are proposing to eliminate the summer feeding program, the special milk program from schools having another federal feeding program, and school feeding programs in private schools that charge more than $1,500 annually for tuition. These proposals will reduce costs from the January budget by about $1.5 billion, while continuing to provide a free lunch and milk to the neediest children.

I take a back seat to no one in my concern for the welfare of needy children. I intend to see that they are taken care of. But some of our food programs have grown into middle class welfare. The federal government presently contributes over 32 cents to every school lunch served to children from families making $17,000 or more per year. This nation has given those of us in the legislative and executive branches of government a clear signal--this kind of welfare does not have a place in an economy struggling to reduce deficits, curb inflation, restore economic incentives, create jobs, build our national defense, and get this country going again.

The Food Stamp Program. In this program our policy once again is to protect those at the lowest end of the income scale and to take care of the truly needy. Our proposals will have the effect of eliminating from the program people whose gross income is above 130 percent of the poverty line while essentially protecting the benefits of those who

remain in the program. In addition, we are recommending:

- A reduction in food stamp benefits for those families who have children currently receiving free school lunches. This will reduce duplication of benefits between the school lunch and food stamp programs.
- Freezing deductions for the determination of benefit levels.
- Instituting a number of management changes, including prorating first month benefits to recipients to ensure that benefits are more equivalent to the number of days in the month for which assistance is needed, and calculating benefits based on actual recent income rather than projected income.

As you know, the food stamp program is designed to alleviate poverty caused hunger in the United States. It does so by providing a federal subsidy towards the purchase of a specific diet known as the thrifty food plan and by assuring that no family need contribute more than 30 percent of its own income towards the purchase of that diet. Depending on income, an individual's per meal subsidy can be as high as the full cost of the thrifty food plan, approximately 70 cents. The changes we are recommending will preserve these basic program concepts. We are seeking to limit eligibility to those who would have to pay more than 30 percent of their income to purchase the thrifty food plan. Within the basic eligibility criteria, actual benefit levels will be tailored to need on a case by case basis. Duplication of benefits with the school lunch program will be eliminated.

All told, these changes are expected to save $1.8 billion in fiscal year 1982.

Food Assistance to Puerto Rico. We are proposing a new approach to nutrition assistance in Puerto Rico. Under a block grant proposal Puerto Rico will have the discretion to design a food assistance program that serves the neediest in its population, relies on the local agriculture, and reduces dependence on the federal government. Net savings will amount to $306 million, including $27 million for child nutrition programs, $275 million for food stamps, and $4 million for the Women, Infants, and Children program.

Women, Infants, and Children Program. We are also proposing to retarget the WIC program to only the neediest. Reductions in funding

of $327 million and in average monthly participation of 700 thousand will be realized primarily through normal turnover. Participants that leave the program because their income or nutritional status has improved will not be replaced. The highest priority categories within WIC, that is, nutritionally deficient pregnant and breast feeding women and their infants will continue to be served.

WIC is the kind of program that is most difficult to deal with in the present budget environment. It appears to be a worthwhile program. Certainly those who benefit from it will testify as to its effectiveness for them and there are studies which seem to confirm that testimony. On the other hand, WIC is a costly program. While states contribute to its administration, the federal government pays all program costs and the federal share of administrative costs indicates an overhead level of over 20 percent. The federal budget for WIC has increased from $155.4 million to $943.9 million during the 1976-1981 period and we are still only reaching 25 percent of the potentially eligible population. Continued growth of this program would therefore inevitably lead to even greater budget costs. Our proposal, essentially, is to hold funding to the level provided in fiscal year 1980 and work with program sponsors to assure that the limited available resources are provided to those who are most in need.

COMMODITY CREDIT CORPORATION

Dairy Payment Program. This program has become very expensive and continues to encourage increased production as government dairy surpluses grow. The American people need, and want, adequate dairy production. Dairy farmers are beset by high costs and rigorous health regulations--and no one works harder, seven days a week, than our dairy farmers. But we cannot justify a program that generates increasing dollar costs and mounting surpluses at the same time. That can't be in the long-term best interest of dairymen. We are proposing legislation which will eliminate the April 1 semi-annual cost index adjustment. This will produce $138 million in savings in fiscal year 1981 and additional savings in subsequent years. We will conduct a thorough review of the dairy program as part of our continuing review of all commodity programs preparatory to working on a 1981 farm bill.

Other CCC Changes. Included in the Reagan budget for FY 1982 are savings of $312 million for the farm storage facility loan program, elimination of the first year interest waiver on reserve grain loans, and setting interest rates on loans at the full cost of money.

As part of the new farm bill, I will recommend that authority for target prices and deficiency payments not be extended. Payments from the Treasury--which are not recoverable--are inconsistent with an agriculture in which producers receive their income from the market place. Eliminating the deficiency payment program will greatly reduce our budget exposure.

We are also recommending a $100 million reduction in P.L. 480 as part of a general reduction in government outlays. Most of this reduction will come from the Title I concessional sales program. We will need to maintain a tonnage level of 1.7 million tons under the Title II donations program to meet legislated requirements.

CONSERVATION PROGRAMS

Conservation activities. The programs of the Soil Conservaton Service, the Forest Service and the conservation activities of the Agricultural, Stabilization and Conservation Service are all relatively high priority items for this administration. The overall reductions in these programs amount to&nly about 4.5 percent from the Carter budget.

There is a $12 million reduction in watershed planning and construction activities of the Soil Conservation Service. This proposal is part of a government-wide reduction in water resource programs.

There is a $60 million reduction in Forest Service programs. The largest single item is a $25 million reduction in forest road construction and reconstruction which we expect fully to offset by revision of road standards and reducing reconstruction of existing roads. These savings can be realized without reducing current or future year timber sale targets. There are other reductions in selected programs which generally are limited to foregoing program increases budgeted by the prior administration.

Conservation cost-sharing programs of the Agricultural Stabilization and Conservation Service are slated for a $55 million reduction. These are programs under which the federal government makes direct

payments to individuals for conservation practices. Proposals to make reductions in these programs stem from the administration's overall economic policies to place greater reliance on the private sector for such investment decisions. Furthermore, the administration's proposals on investment credits and depreciation will provide additional incentives to invest in conservation practices.

I know and understand the difficulty this committee will have in dealing with these changes I have discussed today. They raise important and difficult issues and the time available to consider them is short. Reducing federal spending is never easy but we must do it and we must do it now--if not, the federal deficit will soar to alarming heights in FY 1982. The American people have told us that is not satisfactory.

I am sure that by working together, and by making hard choices together, we will be able to develop sound programs and financial proposals for the Department of Agriculture. They will help revitalize the American economy and help us grow as a nation to new heights of accomplishment, full of promise for our people and our farmers.

At the foundation of it all, is a profitable, productive agriculture which permits farmers to adjust to marketing opportunities, maintain a modern farm plan, conserve the soil, use energy wisely, and participate in a renewed future for them and their children.

Thank you.

#

News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

USDA RELEASES PRELIMINARY FOOD ASSISTANCE DATA FOR DECEMBER 1980

WASHINGTON, March 10--Preliminary estimates of participation in the federal-state food assistance programs for December, with comparisons to November and to December 1979 were released today by the U.S. Department of Agriculture. The estimates are:

	Dec. 1979	Nov. 1980	Dec. 1980
Food Stamp Program:			
People participating (millions)	20.1	21.9	22.2
Value of bonus coupons (millions)	\$662.6	\$742.8	\$760.5
Average bonus per person	\$33.02	\$33.89	\$34.28
Food Distribution Program on Indian Reservations:			
Number of projects in operation	36	62	64
Special Supplemental Food Program (WIC)			
People participating (millions)	1.684	2.252	2.262
Federal food costs (millions)	\$44.3	\$60.0	\$60.4
Commodity Supplemental Food Program:			
Number of projects in operation	22	21	21
People participating (thousands)	94.9	109.0	109.4
National School Lunch Program:			
Number of schools taking part[b]	94,327	94,152	94,152
Children participating (millions)	27.0	26.7	26.5
Children reached with free or reduced price lunches (millions)	11.9	12.3	12.3
Percentage of lunches served free	36.9	38.5	39.2
Percentage lunches served at reduced price	6.8	7.4	7.3

	Dec. 1979	Nov. 1980	Dec. 1980
School Breakfast Program:			
Number of schools taking part[b]	32,737	34,316	34,316

Children participating (millions)	3.5	3.9	3.8
Percentage of breakfasts served free or at reduced price	84.8	85.6	86.0
Child Care Food Program:			
Number of outlets taking part	32,082	40,600	42,100
Children participating (thousands)	670.7	731.0	745.0

[a]Due to monthly fluctations, federal administrative expenditures are excluded from the program.

[b]These data are collected semi-annually (October and March). Figures for the latest available month (October) are listed.

#

COMMENT PERIOD EXTENDED ON RECOMMENDED DECISION FOR 29 MILK ORDERS

WASHINGTON, March 11--The deadline for the public to file exceptions to a recommended decision of the U.S. Department of Agriculture that would amend Class II price announcement procedures in 29 federal milk marketing orders has been extended to March 24.

Herbert L. Forest, dairy official with USDA's Agricultural Marketing Service, said the extension was requested by representatives of several dairy cooperatives who asked for more time to examine the recommended decision.

Forest said the proposal--the only one supported at a public hearing in Clayton, Mo., last August--would provide that the Class II price for a particular month be announced on a tentative basis by the 15th day of the preceding month. The final Class II price could not be less than the Class III price for that month. The final Class II price would be announced by the fifth day of the following month when the Class III price becomes known.

The hearing to consider changing the Class II price announcement procedures in the 29 7rders was necessitated by an order of the U.S. Court of Appeals for the District of Columbia, which ruled that the existing announcement procedures were invalid, Forest said.

The 29 milk orders that would be affected by the recommended decision are: St. Louis-Ozarks, Georgia, Tennessee Valley, Chicago Regional, Southern Illinois, Louisville-Lexington-Evansville, Indiana, Central Illinois, Greater Kansas City, Nebraska-Western Iowa, Upper Midwest, Neosho Valley, Wichita, Eastern South Dakota, Iowa, New Orleans-Mississippi, Greater Louisiana, Memphis, Nashville, Paducah, Fort Smith, Red River Valley, Oklahoma Metropolitan, Central Arkansas, Lubbock-Plainview, Texas, Central Arizona, Texas Panhandle and Rio Grande Valley.

The notice of the extension will be published in the March 12 Federal Register, available at most public libraries. Exceptions to the recommended decision should be sent to:

Hearing Clerk, Room 1077-S, USDA, Washington, D.C., 20250, where they will be available for public inspection.

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Excerpts From Press Conference

WASHINGTON, March 10--Following are edited excerpts from today's news conference with Secretary of Agriculture John Block.

BLOCK: We are transferring 'the Rural Electrification Administration loan guarantee program from the federal financing bank to the private sector which is in keeping with this administration's desire.

The budget also includes terminating of the business and industrial lending program and Commodity Credit Corporation direct payments for agricultural disasters. This program eventually is going to be taken over eventually primarily by private companies and backed by USDA's Federal Crop Insurance Corporation.

The new budget eliminates target prices for farm commodities under which about $80 million was spent last year. We propose to eliminate the target price concept from farm programs.

Interest subsidies resulting from last year's interest waiver on the loan programs also would be eliminated. Farmers would be expected to pay interest on the farmer loan program.

In the area of nutrition and feeding programs, we are proposing changes that include a reduction of about $317 in the women, infants and children's (WIC) program. The changes include termination of the summer feeding program, saving $140 million; termination of the special milk program in schools, saving $95 million; and initiation of a new block grant program to Puerto Rico, replacing the existing feeding programs there, saving about $300 million.

We will save about $90 million from reduced employment ceilings and limitation on travel funds.

We will save $60 million in the Forest Service budget primarily by not going ahead with road work and some recreational developments.

We will realize a $70 million savings in cost-sharing water resource programs such as the agricultural conservation program, water bank and water shed programs. Other Soil Conservation Service programs have been preserved at their previous levels.

We propose a $100 million reduction in the P.L480 program.

Perhaps the only area of increase over former President Carter's budget would be a $13 million increase for research and extension activities. We have preserved adequate funding--consistent with the Carter budget--for the export promotion programs, another area I think is a paying proposition.

I am now ready to take your questions.

Q: You propose to eliminate the 1980 amendment which waived interest on reserve grain loans. I thought that amendment just waived the interest for 1979 and 1980.

A: It also provided for a waiver of interest for 1981 crops. In the new farm program--which begins with 1982 crops--we propose not to have a waiver of interest.

Q: Do you think charging interest on grain in the reserve will make it difficult to attract grain into the reserve, and wouldn't that have a negative impact on prices received by farmers?

A: We do want a program that will give us a reserve that will attract grain. If we don't have any grain in the reserve, it's not going to be worth a whole lot in terms of emergency reserve grain for the public, or for our foreign customers when we need it to ship, or it doesn't provide a place for grain to go to strengthen the commodity markets.

Q: Will you try to simplify the grain reserve program for the current crop year or will you wait to make your changes in the new farm bill?

A: We won't try to make any changes in the 1981 operation of the farm program ofof any substantive changes. In 198 we will try to make it a simpler program and easier for farmers to understand. And easier for the Secretary of Agriculture to understand.

Q: Will interest rates on crop loans vary from month to month or will you change them during the life of the loan?

A: I don't know if these loan interest rates will vary like that. I don't know if we could put a program together where the rates would vary month to month, but the rates should start out in a range close to the level of what it costs us to get the money for farmers from the U.S. Treasury.

Q: When will the final announcements be made for 1981 crop programs?

A: The farm program is still being discussed right now with the administration.

Q: Will you suggest raising the loan rates for grains?

A: I will suggest raising some, but I have no details yet.

Q: Will you have new farm proposals available about March 20th or so?

A: Yes. For one thing, I have to testify on the 23rd or 24th, and I feel obligated to have the proposals ready by then.

Q: Could you explain again what program are being eliminated in Puerto Rico and whether it is your contention Puerto Ricans will be better off reveiving $3 million less money?

A: They will receive $300 million less money. The advantage is it will be a block grant and they can handle and manage it the way they want to without the bureaucratic red tape. I think under those conditions, with greater efficiency and management, they probably will be as well off.

Q: You previously said the reduction on food stamps would be offset by tax reductions. That is, people would gain money from the Reagan tax plan. There is a substantial body of evidence that suggests people cut off from food stamps are not going to make up the proportional amount in tax savings.

A: It isn't always the case that what I said would be true, but there are cases where it would be true, especially in the third year of a Reagan tax reduction.

We are looking at a program that goes on longer than just one year. By the third year I think a lot of people would be in a better position than they would be if they had kept receiving food stamps.

Q: Will you explain why they are going to be better in the third year than in the first?

A: The president's income tax reduction plan is a three year program. By the third year taxpayers get a greater break in income tax payments than they get the first year. There would be a 10 percent reduction each year for three years. So by the third year they get a great enough break that they are in much better shape than they were before.

Q: Given the projected food price increases, is there any concern that the working poor--those who have succeeded in staying off welfare and other assistance--will somehow slip onto public assistance with the cuts in the nutrition programs?

A: I don't think they will be slipping onto it. If they are working, there are increases in wages coming this year.

Q: Do you favor a cost-of-production formula rather than the parity formula based on 1910-1914 balance of farmer costs for dairy?

A: I don't think it makes a lot of difference which one you go with. We have to structure our support level so we don't accumulate excessive surpluses and keep the supply in balance with demand.

I don't care whether we call it parity or whether we call it cost of production. We are going to start from a benchmark anyway and the benchmark we will use is what the current price. Then we are going to have to go up or down or hold it steady.

Q: There are members of Congress that are not willing to eliminate the April 1 support increase in dairy prices without knowing what your other plans are for the dairy program. Are you going to tell them what your other plans are before April 1?

A: Yes. But I can't predict when we will have all the pro- visions of the dairy program nailed down. When we have the farm program laid out we will be ready to start working with Congress on the dairy portion.

Q: Will some of the Farmers Home Administration and some Rural Electrification Administration programs still have interest subsidies?

A: In Farmers Home, there is an interest subsidy remaining in place for very low income housing. The only other place is in the community loan program where legislation will move the interest from 5 percent to the bond rate.

Q: Will all REA interest subsidies be cut?

A: We do have some 2 percent money that will go up to 5 percent. I think other loan programs will go to the regular money market rate.

Q: On the P.L. 480 program . . . Why did the cuts fall so heavily on Title I? Isn't that the title used to encourage overseas trade activity?

A: It does encourage overseas trade actvity. A great deal of the trade handled through Title I would still take place. There are those that would like to trade under P.L. 480 becauseit offers concessions to them. If they did not have that to fall back on, they would buy the commodities anyway.

I can see the program over the years has been successful program. We have developed markets and strengthened foreign economies, and they have developed a taste for our products and become hooked on our products, and have been willing to buy them commercially.

Q: How does this square with the stated Reagan trade policy?

A: We want to broaden and expand trade primarily through more commerical programs that are subsidized to the extent P.L. 480 is. We think the greatest opportunity lies in some of our other trade expansion programs.

Q: Do you expect farmers to absorb all the costs resulting from farm program revisions, or is it more likely the costs will be passed on to consumers?

A: I don't think the costs are excessive because agriculture really doesn't receive a huge amount of dollars in subsidies, contrary to public perception. Now as to who is going to pay the cost of the reduction, I think if it is passed on to industry and consumers that's as it should be. It should be taken care of as a free market system.

Keep in mind we export a tremendous amount of farm products. We are going to be passing a lot of these costs on to our foreign customers.

Q: Do you plan any changes in the tobacco program besides charging producers for grading and inspecting?

A: That is the only change in sight right now. As I've said, the tobacco program really is not very costly. In fact, the federal, state qnl losal wovernments pick up some $6 billyon a year in taxes from it. The foreign income from tobacco sales is about $2.7 billion. In 1980, it cost the federal government only $71,000 to administer.

If you did away with this program, then the price of tobacco might be reduced. With cheaper tobacco, smoking would increase, and what would we have accomplished besides people smoking more and getting cancer? We'd have a lot of small farmers in tobacco-producing states being forced off the farms and tobacco would be produced on larger farms. Socially, that might not be the best thing to do.

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